Statutory Financial Statements

ORISKA INSURANCE COMPANY

December 31, 2005 and 2004

Together with Independent Auditors' Report

ORISKA INSURANCE COMPANY

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NYKIEL·CARLIN
&CO.
Certified Public Accountants/Business Consultants

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Independent Auditors' Report

To the Board of Directors of

Oriska Insurance Company:

We have audited the accompanying statements of admitted assets, liabilities and surplus – statutory basis of **Oriska Insurance Company** (the "Company") as of December 31, 2005, and the related statements of income – statutory basis, changes in surplus – statutory basis and cash flows –statutory basis for the year then ended. These statutory financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statutory financial statements based on our audit. The financial statements of **Oriska Insurance Company** as of December 31, 2004, were audited by other auditors whose report dated May 27, 2005, expressed an unqualified opinion on those statements on the basis of accounting described in Note 2. As discussed in Note 14, the Company has restated its 2004 financial statements during the current year to record a federal income tax receivable. The other auditors reported on the 2003 financial statements before the restatement.

We conducted our audit in accordance with auditing standards generally accepted in United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 2 to the financial statements, these statutory financial statements were prepared using accounting practices prescribed or permitted by the Insurance Department of the State of New York, which practices differ from accounting practices generally accepted in the United States of America. The effects on the financial statements of the variances between statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of **Oriska Insurance Company** as of December 31, 2005, and the results of its operations and cash flows for the year then ended.

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of **Oriska Insurance Company** as of December 31, 2005 and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 2.

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Our audit was conducted for the purpose of forming an opinion on the basic statutory basis financial statements taken as a whole. The accompanying supplemental information of the Company as of December 31, 2005 and for the year then ended are presented for purposes of additional analysis and are not a required part of the basic statutory basis financial statements. The effects on the supplemental information of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplemental information does not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2005 and for the year then ended. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic statutory basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statutory basis financial statements taken as a whole.

We also audited the adjustment described in Note 14 that was applied to restate the 2004 financial statements. In our opinion, such adjustment was appropriate and has been properly applied.

This report is intended solely for the information and use of the Board of Directors and management of **Oriska Insurance Company** and for filing with state insurance regulatory authorities and is not intended to be and should not be used by anyone other than these specified parties.

Nykiel, Carlin & Co., Ltd.

NYKIEL, CARLIN & CO., LTD.
Schaumburg, Illinois

May 24, 2006

ORISKA INSURANCE COMPANY
STATEMENTS OF ADMITTED
ASSETS, LIABILITIES AND SURPLUS – STATUTORY BASIS
DECEMBER 31, 2005 AND 2004

ADMITTED ASSETS

	2005	2004
Bonds	**$ 4,909,406**	$ 4,494,411
Common stocks	**3,403,612**	4,209,882
Real estate held for sale, net	**387,965**	384,944
Cash and short-term investments	**4,165,927**	4,071,967
Total Cash and Invested Assets	**12,866,910**	13,161,204
Premiums and agents' balances receivable	**3,067,456**	1,820,264
Reinsurance recoverable	**1,552,646**	669,109
Accrued interest and dividends	**44,196**	33,608
Deferred tax asset	**410,000**	100,000
Federal income tax receivable	**503,000**	603,000
Other	**32,047**	151,492
	$ 18,476,255	$ 16,538,677

LIABILITIES AND SURPLUS

	2005	2004
Unpaid losses and loss adjustment expenses	**$ 10,143,400**	$ 6,529,206
Commissions and other accrued expenses	**487,055**	955,385
Due to affiliates and related parties	**175,671**	1,021,920
Unearned premiums, net	**2,706,448**	1,297,726
Ceded reinsurance balances payable	**453,689**	318,506
Amounts retained by Company for account of others	**9,238**	434,842
Provision for reinsurance	**-**	142,464
Provision for uncollateralized reserve	**-**	618,362
Total Liabilities	**13,975,501**	11,318,411
Common stock	**1,500,000**	1,500,000
Gross paid-in and contributed surplus	**7,859,068**	7,859,068
Unassigned deficit	**(4,858,314)**	(4,138,802)
Total Surplus	**4,500,754**	5,220,266
	$ 18,476,255	$ 16,538,677

The accompanying notes to statutory financial statements
are an integral part of these statements

ORISKA INSURANCE COMPANY
STATEMENTS OF INCOME – STATUTORY BASIS
DECEMBER 31, 2005 AND 2004

	2005	2004
PREMIUMS EARNED, NET	**$ 7,798,961**	$ 5,204,062
LOSSES AND EXPENSES		
Losses and loss expenses incurred	**4,336,623**	2,382,863
Other underwriting expenses	**3,930,928**	3,766,223
Total Losses and Expenses	**8,267,551**	6,149,086
Net Underwriting Loss	**(468,590)**	(945,024)
NET INVESTMENT INCOME	**366,166**	520,105
OTHER INCOME (EXPENSE), NET	**241,143**	(639,353)
INCOME (LOSS) BEFORE PROVISION (CREDIT) FOR FEDERAL INCOME TAXES	**138,719**	(1,064,272)
PROVISION (CREDIT) FOR FEDERAL INCOME TAXES	**148,297**	(360,297)
NET LOSS	**$ (9,578)**	$ (703,975)

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ORISKA INSURANCE COMPANY
STATEMENTS OF CHANGES IN SURPLUS – STATUTORY BASIS
DECEMBER 31, 2005 AND 2004

	2005	2004
COMMON STOCK:		
No par value, 200 shares authorized		
issued and outstanding	**$ 1,500,000**	$ 1,500,000
GROSS PAID-IN AND CONTRIBUTED SURPLUS	**7,859,068**	7,859,068
UNASSIGNED DEFICIT:		
Balance at beginning of year (as previously reported)	**(4,385,802)**	(2,221,214)
Correction of an error	**247,000**	-
Balance at beginning of year (as restated)	**(4,138,802)**	(2,221,214)
Net change in unrealized gains and losses	**67,089**	466,675
Change in nonadmitted assets	**(1,820,153)**	(892,389)
Change in provision for reinsurance	**142,464**	(126,673)
Change in uncollateralized reserves	**618,362**	(618,362)
Change in net deferred income taxes	**282,304**	(42,864)
Net loss	**(9,578)**	(703,975)
Balance at End of Year	**(4,858,314)**	(4,138,802)
TOTAL SURPLUS	**$ 4,500,754**	$ 5,220,266

The accompanying notes to statutory financial statements
are an integral part of these statements

ORISKA INSURANCE COMPANY
STATEMENTS OF CASH FLOWS – STATUTORY BASIS
DECEMBER 31, 2005 AND 2004

	2005	2004
CASH FROM OPERATIONS		
Premiums collected, net of reinsurance	$ 8,095,674	$ 9,261,518
Net investment income	285,168	162,966
Other income (expense)	303,025	(990,257)
Total	8,683,867	8,434,227
Benefits and loss related payments	(1,581,364)	(2,760,974)
Commissions and expenses paid	(4,221,923)	(4,215,310)
Federal income taxes paid	(48,297)	(208,894)
Net Cash From Operations	2,832,283	1,249,049
CASH FROM INVESTMENTS		
Proceeds from investments sold, matured or repaid -		
Bonds	1,084,045	2,004,673
Common stocks	1,458,633	2,563,294
Other	-	176
Total investments proceeds	2,542,678	4,568,143
Cost of investments acquired -		
Bonds	(1,544,146)	(662,094)
Common stocks	(373,495)	(1,891,062)
Real estate	-	(388,000)
Total investments acquired	(1,917,641)	(2,941,156)
Net Cash From Investments	625,037	1,626,987

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are an integral part of these statements

ORISKA INSURANCE COMPANY
STATEMENTS OF CASH FLOWS – STATUTORY BASIS
DECEMBER 31, 2005 AND 2004

	2005	2004
CASH FROM FINANCING AND MISCELLANOUS SOURCES		
Net transfer to affiliates and related parties	**(846,248)**	1,719,943
Other applications	**(443,710)**	(570,953)
Receivables from loss funds	**(2,073,402)**	(2,068,971)
Net Cash Used in Financing and Miscellanous Sources	**(3,363,360)**	(919,981)
NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS	**93,960**	1,956,055
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	**4,071,967**	2,115,912
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	**$ 4,165,927**	$ 4,071,967

The accompanying notes to statutory financial statements
are an integral part of these statements

ORISKA INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE 1 – NATURE OF OPERATIONS

Oriska Insurance Company (the Company) is a New York corporation licensed as a property and casualty insurer. The Company provides insurance coverage for surety, disability, group health and accident and workers' compensation. The Company is owned 100% by Oriska Corporation (a New York corporation). Oriska Corporation is an 82% owned subsidiary of IPA Acquisitions, Inc. (a California corporation). The President of the Company is the principal stockholder of IPA Acquisitions, Inc. The Company is licensed in New York, Pennsylvania, Georgia, West Virginia, Tennessee, North Carolina and the District of Columbia.

During 2002, the Company began writing workers' compensation insurance for the professional employer organization (PEO) industry. As a result of the new PEO market, the Company significantly reduced its writings in its other lines of business beginning in 2003. Workers' compensation represented 90% and 78% of net written premiums in 2005 and 2004, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statutory accounting practices: The financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by the New York State Insurance Department (Department) for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under New York Insurance Law. The State of New York has adopted the accounting policies found in the revised National Association of Insurance Commissioners (*NAIC*) "*Accounting Practices and Procedures Manual" ("SAP").*

SAP differs in certain respects from accounting principles generally accepted in the United States of America ("GAAP") followed by other types of enterprises in determining financial position, results of operations and cash flows. The effects of such variances on the accompanying financial statements have not been determined but are presumed to be material. The most significant variances are as follows:

- Under SAP, commissions and other acquisition costs in connection with acquiring new or renewal business are charged to operations as incurred. Under GAAP, these costs would be capitalized to the extent recoverable and amortized ratably over the terms of the underlying contracts.

- Certain assets, primarily non-current net deferred tax assets, capitalized software, furniture and equipment and receivables older than 90 days, are designated as "non-admitted assets" and are excluded from the statutory statements of admitted assets, liabilities and surplus. Under GAAP, such assets would be recorded at their net realizable value.

- Investments are carried at values prescribed by the NAIC. Generally, bonds are valued at amortized cost (unless the NAIC requires market value), and common stocks of non affiliates are valued at market. Under GAAP, debt securities would be classified into three categories: held-to-maturity, trading, and available-for-sale. Equity securities would be classified into two categories: trading or available-for-sale. Held-to-maturity securities would be reported at amortized cost. Trading securities would be reported at fair value, with unrealized gains and losses included in earnings. Available-for-sale securities would be reported at fair value, with unrealized gains and losses, net of related deferred taxes, reported in a separate component of surplus.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statutory accounting practices (continued):

- Changes in deferred income taxes are recorded directly to surplus as opposed to being an item of income tax benefit or expense for GAAP financial reporting purposes. Admittance testing may result in a charge to surplus for non-admitted portions of deferred tax assets. Under GAAP reporting, a valuation allowance may be recorded against the deferred tax asset and reflected as an expense for financial reporting purposes.

- The statutory statements of cash flows do not include classifications consistent with GAAP and a reconciliation of net income to net cash provided by operating activities is not provided.

- A statement of comprehensive income is not provided.

The aggregate effect of the foregoing differences between SAP and GAAP has not been determined but is presumed to be material.

Use of estimates: The preparation of financial statements in conformity with accounting procedures prescribed or permitted by the Department and the *NAIC Accounting Practices and Procedures Manual* requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments: Investment grade bonds are stated at amortized cost. The accrual of discounts and amortization of premium is computed under the effective interest method. Non-investment grade bonds are stated at fair value. Investments in equity securities are stated at market value, which is generally obtained from the Securities Valuation Office of the NAIC.

Realized investment gains or losses on the sale of investments are determined on the specific identification basis and are recorded directly in the statements of income. Security transactions are recorded on the trade date.

Real estate held for sale is stated at the lower of cost or fair value and net of encumbrances and estimated selling costs.

Investment securities are exposed to various risks related to interest rate fluctuations, financial market variability and credit risks of investment security issuers. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, changes in risks in the near term could affect the amounts reported in the statements of admitted assets, liabilities and surplus and the statements of changes in surplus.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unpaid losses and loss adjustment expenses: The liability for unpaid losses and loss adjustment expenses include amounts determined on the basis of individual claims and actuarially determined estimates of losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes the amount is adequate, it is reasonably possible that a change in estimate will occur in the near term and the ultimate liability may be in excess of or less than amounts provided. The methods of making such estimates and for establishing the resulting liabilities are continually reviewed and updated based upon current circumstances and any adjustments resulting there from are reflected in operations. Accordingly, losses and loss expenses are charged to net income as incurred.

Unpaid losses and loss adjustment expenses are stated net of anticipated receivables for salvage and subrogation of $1,434,000 and $0 at December 31, 2005 and 2004, respectively.

Federal income taxes: The Company files a stand alone tax return. Deferred taxes are established for the tax effect of timing differences between financial reporting and the tax basis of assets and liabilities. The realizability of deferred tax assets is determined utilizing an admissibility test outlined in Statement of Statutory Accounting Principles No. 10 – *Income Taxes*. The change in the net deferred tax asset or liability is charged directly to surplus.

Reinsurance: Prospective reinsurance premiums, losses, and loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance treaties.

Premium recognition: Premiums are earned over the terms of the related insurance policies. Unearned premiums represent the portion of premiums written that relate to the unexpired terms of policies in force. Workers' compensation premiums are estimated based on anticipated payrolls of the insured for the policy period and are subject to an audit at the end of the policy term.

Cash flow: Cash for the purposes of the Statements of Cash Flows is cash on hand and on deposit and short-term investments, which are investments with maturities of one year or less at the time of issuance.

Provision for reinsurance: The Company is required to provide a liability for the excess of net reinsurance recoverable over funds withheld, letters of credit and other deposits on business ceded to unauthorized insurers. In addition it is also required to provide a liability for all reinsurance recoverable balances over 90 days due from authorized companies to the extent of 20% of such amount.

The provision for reinsurance was $0 and $142,464 as of December 31, 2005 and 2004, respectively, and any increase or decrease between years is recorded directly to surplus.

Reclassifications: Certain reclassifications have been made to the accompanying 2004 statutory financial statements to conform to the 2005 presentation. Also, certain amounts have been classified differently than in the Annual Statement filed with regulatory authorities.

NOTE 3 – INVESTMENTS

Debt securities: The estimated fair value of bonds is based on market value rates published by the NAIC Securities Valuation Office (SVO). In cases where the SVO has not valued certain securities, estimated fair value is obtained from independent, external pricing service companies. If no market value is available, amortized cost is used. The amortized cost (carrying value) and estimated fair value of bonds at December 31, 2005 and 2004 are as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
At December 31, 2005:				
U.S. Government and agencies	$ 3,448,047	$ 7,595	$ (44,712)	$ 3,410,930
States, territories, and political subdivisions	351,029	9,589	-	360,618
Industrial and miscellaneous	1,110,330	-	(14,998)	1,095,332
Total bonds	4,909,406	17,184	(59,710)	4,866,880
At December 31, 2004:				
U.S. Government and agencies	$ 2,968,754	$ 95,382	$ (75,794)	$ 2,988,342
States, territories, and political subdivisions	375,783	18,920	-	394,703
Industrial and miscellaneous	1,149,874	3,289	(7,087)	1,146,076
Total bonds	$ 4,494,411	$ 117,591	$ (82,881)	$ 4,529,121

The amortized cost and estimated fair value of bonds at December 31, 2005 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized cost	Fair value
Due in one year or less	$ 1,265,849	$ 1,244,974
Due after one year through five years	2,912,987	2,888,048
Due after five years through ten years	721,000	723,970
Due after ten years	9,570	9,888
	$ 4,909,406	$ 4,866,880

NOTE 3 – INVESTMENTS (CONTINUED)

Debt securities (continued): At December 31, 2005 and 2004, investments carried at a book value of $2,411,782 and $2,383,410, respectively, were on deposit with regulatory authorities.

Proceeds from sales of debt securities during 2005 and 2004 were $1,084,045 and $2,004,673, respectively. Gross gains realized on those sales totaled $0 and $11,397 in 2005 and 2004, respectively. Gross losses realized on those sales totaled $1,049 and $4,470 in 2005 and 2004, respectively.

Equity investments: The following relate to equity securities during the years indicated:

	2005	2004
Proceeds from sales	$ 1,458,633	$ 2,563,294
Gross realized gains	$ 163,140	$ 311,066
Gross realized losses	$ 30,492	$ 18,439
Gross unrealized gains	$ 904,998	$ 746,834
Gross unrealized losses	$ 75,099	$ 14,261

Real estate held for sale: During 2003, in partial settlement of unpaid insurance premiums from an insured, the Company accepted title to improved real estate in a troubled debt restructuring under SSAP No. 36. The Company is actively attempting to sell the property. Accordingly, it has been classified as "Held for Sale". This investment is carried at fair market value at the date of acquisition less liens on the property of $635,035 and estimated selling costs.

Investment income: Investment income is comprised of the following:

	2005	2004
Bonds - interest	$ 165,961	$ 190,678
Stocks - dividends	67,287	82,639
Cash and short-term investments - interest	58,450	16,514
Net realized gains	131,599	298,022
Gross investment income	423,297	587,853
Less investment expenses	57,131	67,748
Net investment income	$ 366,166	$ 520,105

NOTE 4 – REINSURANCE

The Company limits the maximum net loss which can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks to other insurers or reinsurers by entering into excess of loss and quota share reinsurance contracts. Excess of loss reinsurance contracts cede a portion of retained losses over minimum amounts ranging from $100,000 to $1,000,000, depending upon the line of business. Ceded reinsurance is treated as the risk and liability of the assuming companies.

The effects of reinsurance ceded and assumed on premiums written and earned are as follows:

	2005		2004	
	Written	Earned	Written	Earned
Direct premiums	$ 10,120,731	$ 8,682,126	$ 2,560,646	$ 3,102,562
Ceded premiums	(879,721)	(883,165)	2,612,296	2,101,500
Net premiums	$ 9,241,010	$ 7,798,961	$ 5,172,942	$ 5,204,062

Effective October 2003, the Company reduced its reinsurance coverage and changed carriers. During 2004, the Company received refunds of deposit premiums previously paid and commuted its reinsurance agreement with Max Re. As a result, for the year ended December 31, 2004, ceded reinsurance premiums written and premiums earned were reduced by approximately $2,500,000.

The reinsurance contracts do not relieve the Company from its obligations to policyholders. In the event that any or all of the reinsuring companies might be unable to meet their obligations under existing reinsurance agreements, the Company would be liable for defaulted amounts.

The estimated amount recoverable from reinsurers deducted from the reserve for losses and loss adjustment expenses was $2,009,548 and $2,894,794 at December 31, 2005 and 2004, respectively.

There were no return commissions recoverable at December 31, 2005 and 2004.

At December 31, 2005, the Company had unsecured recoverables from reinsurers for losses and loss adjustment expenses paid and unpaid, including IBNR and unearned premiums that exceed 3% of surplus as follows (in thousands):

Folksamerica Reinsurance Co.	$	1,423
GE RE	$	614
Everest RE	$	367
Houstan Casualty Co.	$	357
Kemper RE	$	259
Odyssey American RE	$	155

NOTE 5 – INCOME TAXES

The net deferred tax asset at December 31, 2005 and the change from the prior year are comprised of the *following components:*

	December 31, 2005	December 31, 2004	Change
Total gross deferred tax assets	$ 789,304	$ 507,000	$ 282,304
Total gross deferred tax liabilities	(317,141)	(275,000)	(42,141)
Net deferred tax asset	472,163	232,000	240,163
Nonadmitted deferred tax assets	(62,163)	(132,000)	69,837
Admitted deferred tax asset	$ 410,000	$ 100,000	$ 310,000

Deferred income tax assets and liabilities consist of the following major components:

	2005	2004	Change
Deferred tax assets:			
Discounting of unpaid losses	$ 570,604	$ 411,000	$ 159,604
Unearned premium reserve	184,038	89,000	95,038
Other	34,662	7,000	27,662
Total deferred tax assets	$ 789,304	$ 507,000	$ 282,304
Deferred tax liabilities:			
Unrealized capital gains	$ 317,141	$ 275,000	$ 42,141

The Company's income tax incurred and change in deferred income tax differs from the amount obtained by applying the Federal rate of 34% to income before income taxes as follows:

	2005	2004
Provision expected at 34%	$ 47,164	$ (361,852)
Increase (decrease) in actual tax reported resulting from:		
Tax exempt interest income and dividends received deduction	(21,439)	(26,040)
Other	(159,732)	70,459
	(134,007)	(317,433)
Change in deferred income tax		
(without tax on unrealized gain and losses)	282,304	(42,864)
Provision (credit) for federal income taxes	$ 148,297	$ (360,297)

ORISKA INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE 6 – LOSS AND LOSS ADJUSTMENT EXPENSES

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows (in thousands):

	2005	2004
Balance at January 1	$ 9,424	$ 7,924
Less reinsurance recoverables	2,895	1,280
Net balance at January 1	6,529	6,644
Losses and loss expenses incurred related to:		
Current year	4,875	3,661
Prior years	(538)	(1,271)
Total incurred	4,337	2,390
Loss and loss expense payments (recoveries) related to:		
Current year	766	1,761
Prior years	(43)	744
Total payments	723	2,505
Net balance at December 31	10,143	6,529
Plus reinsurance recoverables	2,010	2,895
Balance at December 31	$ 12,153	$ 9,424

The incurred amounts related to prior years represent the variations between the Company's estimated losses and loss adjustment expenses for prior years' claims and the actual amounts required to satisfy such claims. Favorable or unfavorable claim development generally occurs as a result of subsequent adjustment of estimates to reflect additional information obtained during the current period.

NOTE 7 – CAPITAL AND SURPLUS

Property and casualty insurance companies are subject to certain Risk-Based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by the insurance company is to be determined based on the various risk factors related to it. At December 31, 2005 and 2004, the Company met the RBC requirements.

The maximum amount of dividends that may be paid by property and casualty insurance companies without prior approval by the State of New York Insurance Commissioner is subject to restrictions relating to statutory surplus and net income. The Company cannot pay dividends without prior approval of the State of New York Insurance Commissioner.

NOTE 8 – RELATED PARTY TRANSACTIONS

Monument Agency, Inc. (Monument) provides agency services and facilities to the Company and its affiliates. Monument is a related party through contractual obligations. In 2005 and 2004, the Company incurred $1,042,556 and $198,467, respectively, in commissions to Monument.

During 2004, the Company had a reimbursement agreement with United Systems Administration, Inc. (USA) for administrative support and facility expenses. USA is also a related party through common management. Expenses allocated to the Company under this arrangement were $1,063,362 in 2004. In 2005, the Company transferred this agreement to Oriska Corporation and incurred expenses totaling $1,042,408.

Entities owned by the Company's President provide legal counsel, engineering loss control and risk inspection services to the Company. The Company was charged $326,211 and $97,902 by these entities in 2005 and 2004, respectively.

At December 31, 2005 and 2004, the Company had the following receivables (payables) due from (to) its affiliates and related parties:

	2005	2004
Insurance Company of the Americas	$ (112,050)	$ (809,500)
Oriska Corporation	(63,621)	(25,202)
IPA Acquisitions, Inc.	-	21,132
Monument Agency, Inc.	-	(429,287)
Reinsurance Company of America, Inc.	-	215,279
United Systems Management, Inc.	-	5,658
	$ (175,671)	$ (1,021,920)

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Company is named as a defendant in various legal actions arising principally from claims made under insurance policies and disputes with insureds. Those actions have been considered by the Company in estimating the loss and loss adjustment expense liability. Management believes that the resolution of those actions will not have a material effect on the Company's financial position or results of operations.
See Note 13 for contingencies related to high-deductible-policies.

IPA Acquisitions, Inc., the Company's ultimate Parent, has issued surplus notes to several PEOs that the Company insures. At December 31, 2005, the outstanding balance on these notes and other funds held by IPA for the Company's benefit was approximately $915,710. The principal and interest, while due on demand, can only be paid out of dividends paid by the insurance subsidiaries of IPA, including the Company. The repayment of this debt and all dividends are subject to approval by the Florida or New York Departments of Insurance. The Company is not directly obligated or a guarantor of these surplus notes or other obligations of IPA or affiliated companies.

NOTE 9 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Company is a defendant in a lawsuit brought on by an independent insurance agency claiming the Company breeched its obligation to provide insurance coverage. A negative outcome could have a significant impact on the financial position of the Company. Management believes this suit is without merit and plans to vigorously defend its position.

NOTE 10 – CONCENTRATION OF CREDIT RISK

The Company's concentration of credit risk consists primarily of cash, receivables from insureds, and uncollateralized reserve credits on high-deductible policies (see Note 13).

The Company maintains cash balances in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC). Balances recorded in the financial statements in excess of FDIC limits were $3,940,037 and $3,390,866 at December 31, 2005 and 2004, respectively.

The Company writes a significant portion of its business through Monument (see Note 8). In 2005 and 2004, premiums written through Monument represented 99% and 98% of total direct written premiums, respectively. One policyholder (a management company) represented 85% of direct written premium in 2004 and 81% of premiums and agents' balances receivable at December 31, 2004. This policy was cancelled in 2005 and rewritten as individual policies with the respective insured companies.

NOTE 11 – RECONCILIATION TO ANNUAL STATEMENT

The following is a reconciliation of surplus reported in these financial statements to surplus reported in the Company's Annual Statements:

	2005	2004
Total surplus per Annual Statement	$ 4,229,409	$ 5,302,546
Increase in commissions, taxes and other expenses payable	-	(142,000)
Decrease in non-admitted assets	303,345	91,720
Decrease in federal income tax expense	247,000	247,000
Loss from balances charged off	(279,000)	(279,000)
Net decrease in surplus	271,345	(82,280)
Total surplus per audited financial statements	$ 4,500,754	$ 5,220,266

NOTE 11 – RECONCILIATION TO ANNUAL STATEMENT (CONTINUED)

The following is a reconciliation of net income (loss) reported in these financial statements to net income (loss) reported in the Company's Annual Statements:

	2005	2004
Net income (loss) per Annual Statement	$ 31,861	$ (1,132,513)
Decrease in commissions and other underwriting expenses	304,367	18,894
Gain (loss) from balances previously charged off	(343,905)	343,905
Decrease in federal income tax expense	-	65,739
Other	(1,901)	-
Net increase (decrease) in net income	(41,439)	428,538
Net loss per audited financial statements	$ (9,578)	$ (703,975)

NOTE 12 – EXAMINATION BY NEW YORK STATE INSURANCE DEPARTMENT

The Company has been examined by the Department through the year December 31, 1998 and is currently undergoing an examination through September 30, 2005.

NOTE 13 – HIGH DEDUCTIBLE POLICIES

The Company writes insurance policies that generally include high deductibles up to $500,000 and is exposed to credit risk arising from such policies. The known reserves for these deductibles were reviewed by the Company's independent actuary. At December 31, 2005 and 2004, the amount of reserve credits taken by the Company for high deductibles on known claim reserves was approximately $2,556,872 and $2,315,783, respectively, and the amount billed and recoverable on paid claims (net of nonadmitted amounts) was $32,047 and $7,877, respectively.

The Company reviews financial viability of its policyholders, collectability of reimbursements for deductibles and the suitability of deductible plans to its policyholders. Reimbursement of deductible payments is uncollectible if the policyholder fails to meet its financial commitments. Management is of the opinion that this contingency will not have a near-term impact on the Company's financial condition, and management has provided financial flexibility for the payment of the deductible obligation over the long term. Furthermore, in connection with the Department examination (see Note 12), the Company has obtained an independent credit risk analysis which consisted of a review of the credit risk associated with large deductible workers compensation insurance collateral of the Company's insureds as of December 31, 2005 which assisted management in their assessment.

At December 31, 2005, the Company held directly, or in trust, amounts totaling $7,036,950 as collateral for high deductibles.

Management believes that the Company has sufficient liquidity and financial flexibility so that the possibility of a future lack of liquidity to meet credit exposure is not probable. Accordingly, no provision for any liability that may result from this situation has been made in the financial statements.

NOTE 13 – HIGH DEDUCTIBLE POLICIES (CONTINUED)

At December 31, 2005, the Company held security interests in bank accounts, real estate, and other assets of insureds as collateral against this risk exposure. However, the Company is not able to reasonably determine the value of some of those security interests, because the collateral agreements do not provide that minimum cash balances be maintained, nor do they provide for effective monitoring of the cash balances. Management is in the process of negotiating enhanced collateral facilities with its insureds to minimize this credit risk. However, there is no assurance that these negotiations will be successful.

The Company is also the plaintiff in legal actions against several PEOs for non-payment of premiums and claims reimbursement. The ultimate outcome of this litigation cannot reasonably be determined at this time.

NOTE 14 – CORRECTION OF AN ERROR

Unassigned deficit as of January 1, 2005 was restated for the correction of an error resulting from unrecorded federal income taxes recoverable related to the carryback of the Company's 2004 net operating loss to the 2002 and 2003 tax years. The correction of the error resulted in a decrease in the unassigned deficit on January 1, 2005 of $247,000 and a decrease in the net loss for the year ended December 31, 2004 of $247,000.

SUPPLEMENTAL FINANCIAL INFORMATION

ORISKA INSURANCE COMPANY
SUPPLEMENTAL FINANCIAL INFORMATION
INVESTMENT RISK INTERROGATORIES
DECEMBER 31, 2005

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
Bonds:				
U.S. Treasury Securities	$ 3,015,607	23.44%	$ 3,015,607	23.44%
U.S. Government agency and corporate obligations (excluding mortgage-backed securities)				
Issued by U.S. government agencies				
Issued by U.S. government sponsored agencies	422,870	3.29%	422,870	3.29%
Foreign government (including Canada, excluding mortgage-backed securities)				
Securities issued by *states, territories, possessions and political subdivisions in* the U.S.				
States, territories and possession general obligations:	351,029	2.73%	351,029	2.73%
Political subdivisions of states, territories and possesions political subdivisions general obligations				
Revenue and assessment obligations				
Industrial development and similar obligations				
Mortgage-backed securities (includes residential and commercial MBS)				
Pass-through securities:				
Issued or guaranteed by GNMA	9,570	0.07%	9,570	0.07%
Issued or guaranteed by FNMA and FHLMC				
All other				
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA				
Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by GNMA, FNMA or FHLMC or VA				
All other				
Other debt and other fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	1,110,329	8.63%	1,110,329	8.63%
Unaffiliated foreign securities				
Affiliated securities				
Equity interests:				
Investments in mutual funds				
Preferred stocks:				
Affiliated				
Unaffiliated				
Publicly traded equity securities (excluding preferred stocks):				
Affiliated				
Unaffiliated	3,403,613	26.45%	3,403,613	26.45%
Other equity securities:				
Affiliated				
Unaffiliated				
Other equity interests including tangible personal property under lease:				
Affiliated				
Unaffiliated				
Mortgage loans:				
Construction and land development				
Agricultural				
Single family residential properties				
Multifamily residential properties				
Commercial loans				
Real estate investments:				
Property occupied by the Company				
Property held for the production of income (includes $0 of property acquired *in satisfaction* of debt)				
Property held for sale ($633,944 including Property acquired in satisfaction of debt)	387,965	3.02%	387,965	3.02%
Policy loans				
Receivables for securities				
Cash and short-term investments	4,165,927	32.37%	4,165,927	32.37%
Other invested assets				
Total cash and invested assets	$ 12,866,910	100.00%	$ 12,866,910	100.00%

ORISKA INSURANCE COMPANY
SUPPLEMENTAL FINANCIAL INFORMATION
INVESTMENT RISK INTERROGATORIES
DECEMBER 31, 2005

1. The Company's total admitted assets as of December 31, 2005 were $18,476,255.

2. The 10 largest exposures to a single issuer/borrower/investment, excluding U.S. Government, U.S. government agency securities, and property occupied by the Company were as listed:

Issuer	Description of Exposure	Amount	Percentage of total admitted assets
1. Washington Mutual Investors Fund	Unaffiliated Common Stock	246,328	1.37%
2. GMAC	Unaffiliated Bonds	210,000	1.17%
3. Kerr McGee	Unaffiliated Common Stock	169,090	0.94%
4. Altria Group	Unaffiliated Common Stock	156,912	0.88%
5. Computer Associates	Unaffiliated Common Stock	149,604	0.83%
6. Barrick Gold	Unaffiliated Common Stock	128,202	0.72%
7. Countrywide Credit	Unaffiliated Common Stock	123,084	0.69%
8. Viacom	Unaffiliated Common Stock	114,100	0.64%
9. Noble Energy	Unaffiliated Common Stock	104,780	0.58%
10. FNMA	Unaffiliated Common Stock	102,501	0.57%

3. The amounts and percentages of the Company's total admitted assets held in bonds by NAIC rating were:

NAIC-1	$ 4,699,406	26.22%
NAIC-3	210,000	1.17%

13. The amounts and percentages of admitted assets held in the largest 10 equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt or Class 1) are as follows:

Issuer	Amount	Percentage
1. Washington Mutual Investors Fund	246,328	1.37%
2. Kerr McGee	169,090	0.94%
3. Altria Group	156,912	0.88%
4. Computer Associates	149,604	0.83%
5. Barrick Gold	128,202	0.72%
6. Countrywide Credit	123,084	0.69%
7. Viacom	114,100	0.64%
8. Noble Energy	104,780	0.58%
9. FNMA	102,501	0.57%
10. Northrup Grumman	96,176	0.54%

ORISKA INSURANCE COMPANY
SUPPLEMENTAL FINANCIAL INFORMATION
INVESTMENT RISK INTERROGATORIES
DECEMBER 31, 2005

18. Amounts and percents of the Company's total admitted assets held in each of the five largest investments in real estate:

Description	Amount	Percent
Property held for sale	$ 387,965	2.16%

Interrogatories 4 through 12, 14 through 17 and 19 through 24 are filed as a supplement to the Annual Statement did not require detail reporting.